



# RULE-MAKING ORDER

**CR-103 (June 2004)**  
(Implements RCW 34.05.360)

**Agency:** Insurance Commissioner

☒ **Permanent Rule**  
☐ **Emergency Rule**

**Effective date of rule:**

**Permanent Rules**

☐ 31 days after filing.  
☒ Other (specify) January 1, 2006 (If less than 31 days after filing, a specific finding under RCW 34.05.380(3) is required and should be stated below)

**Effective date of rule:**

**Emergency Rules**

☐ Immediately upon filing.  
☐ Later (specify) \_\_\_\_\_

**Any other findings required by other provisions of law as precondition to adoption or effectiveness of rule?**

☐ Yes ☒ No If Yes, explain:

**Purpose:** The permanent rule deletes most of the specific requirements for detailed and complex calculations. For insurers who wish to avail themselves of this option, it offers an alternative, simpler way of showing that their rates are not excessive, inadequate, or unfairly discriminatory.

Insurance Commissioner Matter No. R 2003-05

**Citation of existing rules affected by this order:**

Repealed:  
Amended: WAC 284-24-065  
Suspended:

**Statutory authority for adoption:** RCWs 48.02.060, 48.19.020, 48.19.080

**Other authority :**

**PERMANENT RULE ONLY (Including Expedited Rule Making)**

Adopted under notice filed as WSR 05-18-092 on 9/07/05 (date).

Describe any changes other than editing from proposed to adopted version:

- The words "corresponding to the proposed rate level" are inserted in subsections (4), (5), and (6)
- In subsection (4) and (6), "four percent" is changed to "five percent."
- In subsection (6), the words "and expected operating ratio" are deleted.
- A sentence has been added to subsection (6) to help clarify this subsection.

If a preliminary cost-benefit analysis was prepared under RCW 34.05.328, a final cost-benefit analysis is available by contacting:

Name: \_\_\_\_\_ phone ( ) \_\_\_\_\_  
Address: \_\_\_\_\_ fax ( ) \_\_\_\_\_  
e-mail \_\_\_\_\_

**EMERGENCY RULE ONLY**

Under RCW 34.05.350 the agency for good cause finds:

- ☐ That immediate adoption, amendment, or repeal of a rule is necessary for the preservation of the public health, safety, or general welfare, and that observing the time requirements of notice and opportunity to comment upon adoption of a permanent rule would be contrary to the public interest.
- ☐ That state or federal law or federal rule or a federal deadline for state receipt of federal funds requires immediate adoption of a rule.

Reasons for this finding:

**Date adopted:**

October 31, 2005

**NAME (TYPE OR PRINT)**

Mike Kreidler

**SIGNATURE**

**TITLE**

Insurance Commissioner

**CODE REVISER USE ONLY**  
**Information input by Agency**

**CODE REVISER'S OFFICE**  
**STATE OF WASHINGTON**  
**FILED**

**OCT 31 2005**

**TIME** 12:54 **PM**  
**WSR** 05-22-061

(COMPLETE REVERSE SIDE)

**Note: If any category is left blank, it will be calculated as zero.  
No descriptive text.**

**Count by whole WAC sections only, from the WAC number through the history note.  
A section may be counted in more than one category.**

**The number of sections adopted in order to comply with:**

<b>Federal statute:</b>	New	_____	Amended	_____	Repealed	_____
<b>Federal rules or standards:</b>	New	_____	Amended	_____	Repealed	_____
<b>Recently enacted state statutes:</b>	New	_____	Amended	_____	Repealed	_____

**The number of sections adopted at the request of a nongovernmental entity:**

New	_____	Amended	_____	Repealed	_____
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**The number of sections adopted in the agency's own initiative:**

New	_____	Amended	<u>1</u>	Repealed	_____
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**The number of sections adopted in order to clarify, streamline, or reform agency procedures:**

New	_____	Amended	_____	Repealed	_____
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**The number of sections adopted using:**

<b>Negotiated rule making:</b>	New	_____	Amended	_____	Repealed	_____
<b>Pilot rule making:</b>	New	_____	Amended	_____	Repealed	_____
<b>Other alternative rule making:</b>	New	_____	Amended	<u>1</u>	Repealed	_____

AMENDATORY SECTION (Amending Matter No. R 98-4, filed 10/7/98, effective 11/7/98)

**WAC 284-24-065 Demonstration that rates satisfy the requirements of RCW 48.19.020.** (1) When an insurer or rating organization files rates with the commissioner, it must demonstrate that the proposed rates satisfy the requirements of chapter 48.19 RCW. RCW 48.19.020 requires that premium rates for insurance shall not be excessive, inadequate, or unfairly discriminatory. A rate is reasonable and not excessive, inadequate, or unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer. Such costs include claims, claim settlement expenses, operational and administrative expenses, and the cost of capital. ~~((When an insurer or rating organization files rates with the commissioner, it must demonstrate how it has accounted for each of these costs, so that the commissioner can determine whether the proposed rates satisfy the requirements of RCW 48.19.020.~~

~~(2) An insurer filing rates must demonstrate that it has accounted for the cost of capital by showing that its expected after-tax return on equity is consistent with its expected cost of capital. A rating organization filing rates must demonstrate that it has accounted for the cost of capital by showing that its members' or subscribers' expected after-tax return on equity is consistent with their expected cost of capital. An insurer or rating organization may establish the expected cost of capital by citing:~~

~~(a) Data pertaining to historical after-tax returns on equity for the property-casualty insurance industry as a whole; or~~

~~(b) Data pertaining to historical after-tax returns on equity for insurers writing coverages involving a similar level of risk; or~~

~~(c) Data pertaining to historical after-tax returns on equity for other industries involving a similar level of risk; or~~

~~(d) In the case of a stock insurer, data pertaining to the after-tax return on equity necessary to attract and retain investors; or~~

~~(e) In the case of a mutual or reciprocal insurer, data pertaining to the after-tax return on equity necessary to maintain policyholders' surplus adequate to support the insurer's business.~~

~~(3) For the purposes of this section, equity shall customarily be computed under generally accepted accounting principles. However, at the rate filer's option, insurers' statutory surplus as regards policyholders may be used instead. The equity assigned to the writing of a particular coverage in this state shall be determined by making a reasonable allocation of total equity by coverage and by state. Allocation of equity by coverage may involve a recognition of the differences in the level of risk by coverage.~~

~~(4) The expected after-tax return shall include:~~

~~(a) Expected underwriting profit or loss; and~~

~~(b) Expected investment income, including, but not limited to, investment income on assets corresponding to unearned premium reserves,~~

~~loss and loss adjustment expense reserves, and statutory surplus as regards policyholders; and~~

~~(c) Other expected income, at the filer's option; and~~

~~(d) Expected federal income taxes arising from (a), (b), and (c) of this subsection, including, but not limited to, taxes due to the revenue offset, reserve discounting, and alternative minimum tax provisions of the Tax Reform Act of 1986.~~

~~(5) Due to the variability of expected realized and unrealized capital gains and taxes thereon, the commissioner will not require that these items be included in the expected after-tax return for ratemaking purposes.~~

~~(6) Expected after-tax return on equity shall be determined as the annualized rate of return arising from policies to be written in the period during which the filing is expected to be in effect. The calculations involved should follow from the methods used in preparing the filing.~~

~~(7) In lieu of allocating its equity as prescribed by subsection (3) of this section, an insurer may establish a target operating ratio applicable to all coverages.))~~

~~(2) For the purposes of this section, "operating ratio" ((is)) means the sum of after-tax underwriting profit (or loss) and after-tax investment income on assets corresponding to unearned premium reserves and loss and loss adjustment expense reserves, divided by premium. ((The insurer must show that its target operating ratio corresponds to an expected after-tax return on equity that is consistent with its cost of capital, in accordance with subsection (2) of this section. Although investment income on assets corresponding to policyholders' surplus is not included in the calculation of an operating ratio, this component of investment income must be considered in establishing the target operating ratio, because it must be included in the expected after-tax return on equity, in accordance with subsection (4) of this section.~~

~~(8))) (3) For liability insurance, if the increased limits factors include risk loads, the proportion of the expected premium (net of expenses) arising from the risk loads for all policy limits shall be included in the expected underwriting profit or loss.~~

~~((9) So that the commissioner may more easily determine whether rates satisfy the requirements of RCW 48.19.020:~~

~~(a) The use of the word "indicated" in a rate filing to describe a rate or rate change shall be limited to situations in which:~~

~~(i) The insurer or rating organization making the filing has taken into account all of the factors listed in RCW 48.19.030 (3)(a) through (f); and~~

~~(ii) The rate or rate change labeled "indicated" corresponds to an expected after-tax return on equity which is supported as required by subsection (2) of this section.~~

~~(b) A rate filing must contain an explanation of any material difference between an indicated rate or rate change and a proposed rate or rate change.~~

~~(10) Filings of supplementary rating information, as defined by WAC 284-24-062 (2)(f), are exempt from the requirements of this section. However, if package modification factors are not supported by data showing the relationship between package and monoline loss experience and expenses, the requirements of this section apply to filings of package~~

~~modification factors.))~~ (4) Rates are not considered excessive if the expected operating ratio corresponding to the proposed rate level is less than or equal to five percent.

(5) Rates are not considered inadequate if the expected operating ratio corresponding to the proposed rate level is greater than or equal to zero.

(6) When an insurer or rating organization files rates for which the expected operating ratio corresponding to the proposed rate level is less than zero or greater than five percent, it must demonstrate that the proposed rates are consistent with the principles stated in subsection (1) of this section. In other words, the insurer or rating organization must show how it has accounted for all expected costs, including claims, claim settlement expenses, operational and administrative expenses, and the cost of capital.